Understanding Your Organization's Genuine Assets

A strategic leadership skill for CFO teams is to understand what constitutes Genuine Assets and then help their organizations learn how to use them to their advantage.

What are your firm's unique and most valuable capabilities and resources? Who should know the most about the assets of an organization? If asked these questions, most accountants and financial professionals would say the CFO would know. Yet the most valuable assets of an organization are its "Genuine Assets," many of which don't show up on the balance sheet or in any part of a company's financial statements (see "Genuine Assets: Building Blocks of Strategy and Competitive Advantage," *Strategic Finance*, November 2000).

An important strategic leadership skill for CFOs and finance teams is the ability to identify the Genuine Assets of an organization and understand and describe how these assets create value in the business strategy. Here we describe how CFO teams can identify an organization's Genuine Assets and analyze them in the context of its strategy.

Background

Genuine Assets can be defined as the tangible and intangible resources and capabilities that enable an organization to achieve its strategic objectives. Based on extensive research about high-performance companies, we can say they are the "building blocks" of strategy that form the basis for creating sustainable competitive advantage and lead to superior returns, growth, and, ultimately, drive market value (see "Return Driven: Lessons from High-Performance Companies," *Strategic Finance*, July 2008).

One of the most important yet often overlooked Genuine Assets is a complete and comprehensive understanding of the firm's existing Genuine Assets. Every organization should take an objective look at these assets and consider the benefits it can gain when including them in its strategy development processes. Without this process, management may overlook key components of successful strategy and end up struggling to compete.

Let's take a look at the five steps in the process of identifying and understanding your Genuine Assets.

Step 1: Taking Inventory of Genuine Assets

The first step in the process is to identity an organization's key Genuine Assets. Among them are obvious ones, such as a dominant market share, strong financial position, or superior physical assets. But Genuine Assets sometimes aren't quantifiable and often don't appear in the financial reports or disclosures of a firm. Nevertheless, they are vital to the organization. These Genuine Assets would include deep domain expertise, brand equity, a resilient supply chain, reputation, workforce competencies, customer intelligence, or strong relationships with customers, regulators, and suppliers.

Our experience with the importance of Genuine Asset discovery is based on discussions with hundreds of CFOs, presentations at CFO summits, and conversations during executive workshops involving companies ranging from start-up entrepreneurial ventures to *Fortune* 500 companies. Though the size and scale of the companies have varied, the process of identifying a firm's Genuine Assets is universally critical to ensuring an executable strategy.

Step 2: What Genuine Assets Are You Missing?

Another issue to address is identi-

By Mark L. Frigo, CMA, CPA, and James Hurley, CPA

fying the missing Genuine Assets your company would need to achieve future strategic objectives. There probably will be missing Genuine Assets that should be acquired or developed in some way by the organization that will be needed to drive superior return on investment and future growth. If the company needs to add Genuine Assets, further questions arise: What level of control or ownership is required? How will the new Genuine Asset affect other Genuine Assets and related processes? These and other questions will need to be considered and answered in order to integrate the new Genuine Asset in the strategy of the organization. For example, a missing Genuine Asset (which could be attained through strategic partnering with another company) may be a distribution network for a new product line.

Step 3: What Is the Strategic Value of Genuine Assets?

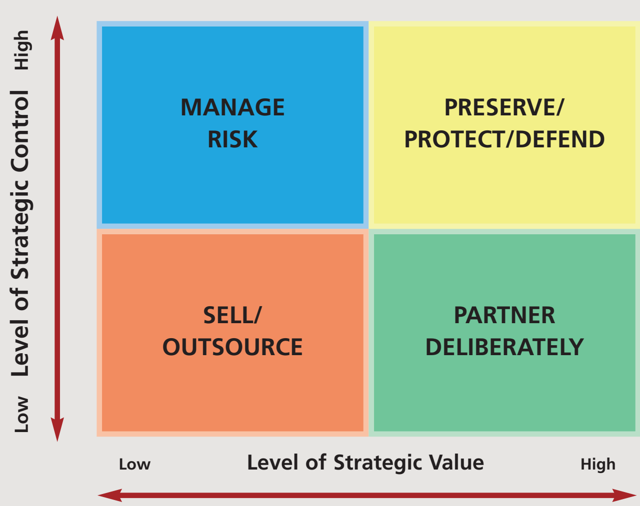
Once all existing and required Genuine Assets are identified, they can be analyzed in order of value to the organization's strategy. This is a subjective process that calls for consensus among the different constituencies in a firm. There's a valuable learning opportunity in this process. In the give and take of the discussions between different organizational and functional areas of the company, the critical question to be asked regarding key elements of the business strategy is "How will Genuine Assets allow us to better innovate, deliver, or brand our offerings to fulfill the customer needs we are targeting?"

Step 4: Analyzing the Degree of Control over Genuine Assets

A critical, but subtle, decision that needs to be made is to examine the degree of control that should exist over Genuine Assets. We have found that many organizations don't consider the many options in this decision and inadvertently abandon the range of options that do exist. The key is to realize that the range of control over an asset involves elements of cost, risk, and flexibility. The more the control, the more cost, the less flexibility, and the less risk the organization is willing to absorb.

In Figure 1, we present a framework used by CFO teams to evaluate their firm's Genuine Assets with respect to strategic value and strategic control as well as the strategic response.

Figure 1 **Strategic Value vs. Control of Genuine Assets**



Let's look at the four quadrants of the matrix and what they mean.

Priority 1: High Control/High Value—These Genuine Assets are the needed or existing prime ingredients required to build a strategy and must be "protected and defended" as well as nurtured. Such assets usually include key intellectual property (think Apple and its continuing IP protection strategy), brand equity and reputation, key personnel, and physical assets that are integral to the firm's strategic direction. The strategic response for these assets is "Protect and Defend."

Priority 2: Low Control/High Value—These Genuine Assets have high value to the firm but may not be capable or worthy of additional costs needed to highly control them. A third-party logistics supplier to an Internet-based B2B or B2C client enterprise can be a Genuine Asset to such a client if it provides critical supply chain services. Such services may need to be outsourced because of specialization and capital barriers to entry, but this must be done carefully.

A viable option in this situation is to consider partnering deliberately and structuring alliances with supply chain partners or others to extract continuing value from the assets without suffering excessive costs of control. The strategic response for these assets is "Partner Deliberately" (which should consider a range of partnering activities from information exchange to outsourcing).

Priority 3: High Control/Low Value—These Genuine Assets, while not usually predominant in an organization, may exist. They usually are assets that have a higher downside risk of abandonment or loss of control than their strategic value. They also may represent barriers to entry that should be maintained. Ongoing, long-term relationships with organized labor unions or regulatory and compliance relationships are examples of Genuine Assets that have lower relative strategic values but shouldn't be abandoned or neglected. The strategic response for these assets is "Manage Risk."

Priority 4: Low Control/Low Value—These Genuine Assets generally aren't strategically important and aren't seen as valuable enough to be highly controlled. They may be assets that have outlived their usefulness or have declined in value to the customer or markets served. The most efficient option here would be to consider outsourcing or selling them to other firms in order to focus resources on more valuable assets. An example would be transforming labor-intensive operations that can't justify automation or added investment to lower-labor-cost environments. The strategic response for these assets is "Sell/Outsource."

Step 5: Strategic Risk Management and Genuine Assets

A final step in the process is to create the necessary strategic objectives for continuing to develop, leverage, and protect the firm's Genuine Assets. During this process, a risk management strategic objective can be developed to address the following question: Who or what function has organizational "ownership" of each asset, and what measures are in place or are required to provide adequate protection of the organization's Genuine Assets?

Becoming Valued Partners

CFO teams can develop strategic leadership skills through a disciplined exercise of identifying and analyzing their firm's Genuine Assets, which can energize their roles as strategic partners to the organization. In doing so, CFO teams can elevate their strategic brand and strategic leadership role by recognizing Genuine Assets and understanding the role of Genuine Assets in strategy development and achieving competitive advantage. Making the connection between the most valuable assets (its Genuine Assets) of an organization to the success of its strategy can help CFOs and CFO teams become valued partners. **SF**

Mark L. Frigo, Ph.D., CMA, CPA, is director of the Center for Strategy, Execution and Valuation where he leads the CFO Strategic Leadership Initiative in the Kellstadt Graduate School of Business at DePaul University. He is Ledger & Quill Alumni Foundation Distinguished Professor of Strategy and Leadership in the Driehaus College of Business at DePaul. You can reach Mark at mfrigo@depaul.edu.

James Hurley, CPA, is Clinical Professor of Strategy in the Center for Strategy, Execution and Valuation at DePaul University. He is currently a partner with Priority Consultants, Inc. in Chicago, Ill., and works with clients on strategic and operating engagements. Jim is a Wharton Fellow and has lectured at the Wharton Business School. You can reach him at jhurley2@depaul.edu.